PENSION MANAGEMENT OVERSIGHT COMMISSION

Legislative Services Agency
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MEETING MINUTES[1]

Meeting Date:	**October 31, 2007**
Meeting Time:	**1:00 P.M.**
Meeting Place:	**State House, 200 W. Washington St., Room 431**
Meeting City:	**Indianapolis, Indiana**
Meeting Number:	**4**

Members Present: **Sen. Dennis Kruse, Chairperson; Sen. R. Michael Young; Sen. Karen Tallian; Rep. David Niezgodski; Rep. Woody Burton; Rep. Lawrence Buell; Kip White; Randall Novak; Matthew Buczolich.**

Members Absent: **Sen. Robert Deig; Rep. Win Moses; Steve Meno.**

Senator Dennis Kruse, Chairperson, called the fourth meeting of the Pension Management Oversight Commission (Commission) to order at 1:05 p.m. The Legislative Council policy concerning committee approval of final bill drafts and final reports was reviewed.

Chris Ruhl, Director of the State Budget Agency, provided additional information concerning the use of the retirement medical benefits account plan established by Senate Enrolled Act 501 to pay premiums for Medicare supplement policies. Section 3.7 of the plan document includes Medicare supplement policies as "qualifying expenses". The State currently offers a Medicare complimentary policy, which would also qualify for reimbursement under the plan.

[1] Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of $0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is http://www.in.gov/legislative/. No fee is charged for viewing, downloading, or printing minutes from the Internet.

Judges' Retirement System Issues (HEA 1480)

The Commission reviewed Preliminary Draft 3414 (Exhibit 1), which would: (1) add full-time magistrates as participants in the 1985 Judges' Retirement System (1985 System), beginning January 1, 2011; (2) after December 31, 2009, align the benefits of the 1985 System with the 1977 Judges' Retirement System (1977 System); and (3) fund these changes by increasing the court administration fee from $3 to $5. Preliminary Draft 3414 supersedes Preliminary Draft 3361 and is identical to Preliminary Draft 3361, except for amendments to SECTIONS 16 and 22 that describe the computation of a retirement benefit for participants in the 1985 System who apply for a retirement benefit before January 1, 2010.

The Commission discussed whether a vested participant in the 1985 System who separated from service and was not eligible to apply for a retirement benefit before January 1, 2010, should, when the participant is eligible to apply for a retirement benefit after December 31, 2009, receive a retirement benefit aligned with the 1977 System (that is, a retirement benefit based on the salary being paid for the office that the participant held at the time of the participant's separation from service), or a retirement benefit that is not aligned with the 1977 System (that is, a retirement benefit based on the salary being paid to the participant at the time of the participant's separation from service).

Doug Todd, Senior Actuary, McCready and Keene, Inc., reviewed a letter, dated October 30, 2007, to Mr. Terry Magid, Executive Director of the Public Employees' Retirement Fund (PERF), concerning the fiscal impact of proposed legislation (PD 3361) for the Judges' Retirement System (Exhibit 2). Mr. Todd discussed the fiscal impact of using the salary at termination versus the salary of the office in computing a retirement benefit for vested participants who terminate service before January 1, 2010. Using the salary at termination in the benefit computation is estimated to increase the unfunded actuarial liability by $34,900,000, increase the annual funding by the employer (State) by $5,470,000, and decrease the funded status from 65.3% to 57.9%. The annual benefit payouts increase from $60,000 in FY 2009-2010 to $1,387,000 in FY 2015-2016. Using the salary for the office in the benefit computation is estimated to increase the unfunded actuarial liability by $37,500,000, increase the annual funding by employer by $5,680,000, and decrease the funded status from 65.3% to 57.3%. The annual benefit payouts increase from $137,000 in FY 2009-2010 to $1,688,000 in FY 2015-2016.

In response to a question as to which salary most private employers use to determine a pension benefit, Mr. Todd said that private industry generally computes pension benefits based on a participant's salary at termination. Mr. Todd also confirmed that, if the benefit of a vested terminated participant in the 1985 System was computed using the participant's salary at termination, the participant, after starting to receive a retirement benefit, would be eligible for increases in that benefit equal to the percentage by which judges' salaries increase.

The Commission, by a voice vote, amended Preliminary Draft 3414 to specify that the retirement benefit for a vested participant in the 1985 System who separates from service before January 1, 2010, but is not eligible to apply for a retirement benefit until after December 31, 2009, is computed using the participant's salary at termination.

Mr. Todd then briefly described the estimated fiscal impact to PERF after magistrates become participants in the Judges' Retirement System: a $1,190,000 decrease in PERF's unfunded actuarial liability, a $416,000 decrease in PERF's annual funding by the employer, and a negligible change in PERF's funded status.

Senator Mike Young proposed an amendment to Preliminary Draft 3414 to exempt Marion County small claims courts from collecting the $2 increase in the court administration fee to pay for the changes in the Judges' Retirement System (Exhibit 3) (Preliminary Draft 3405). He noted that the small claims court judges are not participants in the Judges' Retirement System and would not benefit from the fee increase. Instead, he requested that the increased revenue collected by the small claims courts be used to fund the operation of the small claims courts.

Mark Goodpaster, Senior Fiscal Analyst, Indiana Legislative Services Agency, discussed his analysis of the increase from $3 to $5 in the court administration fee (Exhibit 4). The estimated revenue from this fee increase is $2.18M upon full implementation. The increased revenue would exceed the Judges' Retirement System's increased benefit payout from FY2009 until FY2016. After that date, the benefit payouts are estimated to be greater than the revenues generated by the fee increase. Additionally, Mr. Goodpaster pointed out that an increase in the revenues would not occur immediately after the fee increase is effective, because of timing and reporting differences. Plaintiffs in civil cases pay the fee at the time of filing, while defendants in criminal, juvenile, and infraction and ordinance violation cases pay the fee after a court decides that the person is guilty. Also, state and local governments recognize revenue on a cash rather than an accrual basis, so that revenue received after a certain cutoff date at the end of a fiscal year is reported in the next fiscal year. Consequently, in the first 12 to 18 months after the fee increase is effective, the amount actually generated by the fee increase would be 10 to 20% less than the estimated amounts shown in Exhibit 4.

Mr. Goodpaster noted that the estimated annual revenue in the Marion County small claims court generated by increasing the court administration fee by $2 is $119,785 (5.5% of the total estimated annual revenue). He presented a chart illustrating the number of filings in the Marion County township small claims courts for calendar years 1999 through 2006 (Exhibit 5). The number of filings ranged from a high of 76,002 in 1999 to a low of 71,854 in 2006.

In response to Commission members' questions, judges of city and town courts were confirmed to be participants in the Judges' Retirement System, while Marion County small claims court judges were not. Mr. Goodpaster also explained that the revenue estimates shown in Exhibit 4 do not include persons not paying a fee because a case was dismissed, or because a defendant either failed to pay or appear in court or whose fee was waived because the person was represented by pauper counsel.

The Commission, by a voice vote, amended Preliminary Draft 3414 to direct that the increased revenue collected by the Marion County small claims courts be used to fund the operation of those courts.

Judge Thomas J. Felts representing the Indiana Judges Association thanked the Commission for its work on Judges' Retirement System issues this interim. He expressed support for Preliminary Draft 3414, as amended.

The Commission, by a vote of 8-1, recommended the introduction of Preliminary Draft 3414, as amended.

Indiana State Teachers' Retirement Fund (TRF) Issues

TRF Cost of Living Adjustment

Ralph Ayres, Executive Director of the Indiana Retired Teachers Association, reviewed the provisions of Preliminary Draft 3063 (Exhibit 6). The draft provides a cost of living adjustment in 2009 for certain TRF members, survivors, and beneficiaries. For a member who retired or was disabled before July 2, 2000, the increase to the pension portion of the monthly benefit is two percent. For a member who retired or was disabled after July 1, 2000, and before July 2, 2006, the increase to the pension portion of the monthly benefit is one percent.

Nancy Pappas of the Indiana State Teachers Association (ISTA) and Nancy Tolson, incoming president of the Indiana Retired Teachers Association, testified in support of the Preliminary Draft.

The Commission unanimously recommended the introduction of Preliminary Draft 3063.

TRF Beneficiary Designations

Mr. Ayres reviewed the provisions of Preliminary Draft 3064 (Exhibit 7), which allows a TRF member to change the member's beneficiary designation after the member begins receiving a benefit from the fund if the member and the member's designated beneficiary are parties in an action for dissolution of marriage. Current law limits the change to TRF members who are parties in an action for dissolution of marriage in Indiana.

The Commission unanimously recommended the introduction of Preliminary Draft 3064.

TRF Member Reemployment after Retirement

Mr. Ayres reviewed the provisions of Preliminary Draft 3362 (Exhibit 8). The draft reduces from 90 days to 30 days the waiting period after which a retired TRF member may be reemployed in a covered position and continue to receive a retirement benefit.

In response to questions from Commission members, Tom Davidson, TRF General Counsel, explained that TRF has not asked for an IRS determination concerning the proposed reduction, but will consult with its outside legal and tax advisors to determine whether to apply for a private letter ruling. The draft gives TRF the option to get an IRS determination before implementing the reduction. If TRF does so and the IRS indicates that the waiting period must be longer than 30 days, TRF probably will seek to amend the necessary statutory provisions. TRF does not want TRF members penalized as the result of this change.

Ms. Pappas of ISTA testified in support of the Preliminary Draft. She expects the change to assist in solving teacher shortage problems.

The Commission unanimously recommended the introduction of Preliminary Draft 3362.

Public Employees' Retirement Fund (PERF) Issues

Average of the Annual Compensation

Phil Conklin of the Retired Indiana Public Employees Association reviewed the provisions of Preliminary Draft 3065 (Exhibit 9), which reduces from 20 to 12 the number of calendar quarters used by PERF in the computation of the "average of the annual compensation". Mr. Conklin noted that this provision had not changed since PERF was established in 1945.

The Commission unanimously recommended the introduction of Preliminary Draft 3065.

PERF Vesting Period

Mr. Conklin next reviewed the provisions of Preliminary Draft 3073 (Exhibit 10). This draft reduces from ten to eight the number of years of creditable service a PERF member must earn to obtain vested status.

David Larson representing the Indiana State Employees Association testified in opposition to the Preliminary Draft, because his members would prefer to see a increase in the multiplier used in the retirement benefit computation,

The Commission unanimously recommended the introduction of Preliminary Draft 3073.

PERF Annuity Savings Accounts

Mr. Conklin reviewed the provisions of Preliminary Draft 3176 (Exhibit 11), which allows a vested PERF member who: (1) separates from employment for at least 90 days; and (2) is not eligible at separation to receive a retirement benefit from PERF; to elect to withdraw the entire amount in the member's annuity savings account and receive a benefit equal to the pension provided by employer contributions when the member is eligible to receive a retirement benefit.

Mr. Larson representing the Indiana State Employees Association testified in support of the Preliminary Draft.

The Commission unanimously recommended the introduction of Preliminary Draft 3176.

State Police Pension Issues

Steve Buschmann representing the Indiana State Police Alliance presented Preliminary Draft 3278 (Exhibit 12). The draft revises the computation of the supplemental benefit provided to members of the State Police Pre-1987 Benefit System by including in the amount paid in the first year the retired member is eligible for a supplemental benefit the salary increases paid to active members in the period after the member retired and before the member first qualified for the supplemental benefit.

The Commission unanimously recommended the introduction of Preliminary Draft 3278.

Other Business

The Commission discussed possible authors for the Preliminary Drafts recommended for introduction.

The Commission unanimously adopted its final report, as proposed (Exhibit 13). The final report will be modified to include actions taken by the Commission during this meeting.

The Chair thanked Commission members for their participation this year.

The Chair adjourned the meeting at 2:50 p.m.